

STATE OF LOUISIANA LEGISLATIVE AUDITOR

Department of Social Services -
Child Support Enforcement Program
State of Louisiana
Baton Rouge, Louisiana

August 2, 2000



Financial and Compliance Audit Division

Daniel G. Kyle, Ph.D., CPA, CFE
Legislative Auditor

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LEGISLATIVE AUDITOR

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**DEPARTMENT OF SOCIAL SERVICES
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**Financial Related Audit and
Independent Auditor's Report
Dated July 21, 2000**

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

August 2, 2000

**DEPARTMENT OF SOCIAL SERVICES -
CHILD SUPPORT ENFORCEMENT PROGRAM
STATE OF LOUISIANA
Baton Rouge, Louisiana**

**Financial Related Audit and
Independent Auditor's Report
Dated July 21, 2000**

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Office of Legislative Auditor

Executive Summary

Financial and Compliance Division Financial Related Audit

Louisiana Department of Social Services - Child Support Enforcement Program

The Department of Social Services (DSS) is responsible for the efficient and timely collection and disbursement of child support payments. For fiscal year 1999, DSS received approximately \$212 million in child support payments that were processed by the Louisiana Automated Support Enforcement System and accounted for in the Child Support Escrow Fund.

Our financial related audit found that:

- . The Office of Family Support, Support Enforcement Services did not properly and timely distribute child support payments to custodial parents that have received assistance from other state and federal programs. The department's failure to provide a timely distribution of the child support payments may have put undue hardship on the custodial parents and their children.
- . The Office of Family Support, Support Enforcement Services violated record retention laws when it destroyed supporting documentation for child support payments received during July 1, 1999, through January 31, 2000. Without supporting documentation, DSS cannot ensure that child support payments have been posted to the appropriate accounts nor can problems be researched timely when clients (custodial and non-custodial parents) identify potential errors in their accounts.
- . DSS is not reconciling the Child Support Escrow Fund to the client accounts on a periodic basis. A reconciliation would detect errors such as undistributed amounts payable to custodial parents, undistributed amounts payable to the state, and the failure to post a receipt to a client account.

Daniel G. Kyle, Ph.D., CPA, CFE, Legislative Auditor
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July 21, 2000

Independent Auditor's Report

DEPARTMENT OF SOCIAL SERVICES
STATE OF LOUISIANA
Baton Rouge, Louisiana

We performed a financial related audit of certain transactions of the Department of Social Services (Department). The objectives of our audit were to (1) determine whether the Support Enforcement Services division of the department was collecting and distributing child support payments in accordance with state and federal laws and regulations and (2) report on our findings.

Our audit was performed in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, applicable to a financial related audit. Our audit procedures, which are described in more detail in the background and methodology section of this report, consisted of (1) examining selected child support cases and reports; (2) interviewing management and certain departmental employees; (3) reviewing applicable state and federal laws and regulations; and (4) making inquiries to the extent we considered necessary to achieve our objectives.

These limited procedures are substantially less in scope than an audit of the financial statements in accordance with government auditing standards, the purpose of which is to provide assurance on the Department's presented financial statements, assess the Department's internal control, and assess the Department's compliance with laws and regulations that could materially impact its financial statements. Had we performed such an audit or had we performed additional procedures, other matters might have come to our attention that would have been reported to you. Based on the application of the procedures referred to previously, the accompanying findings and recommendations represent the conditions that we feel warrant attention by the appropriate parties. Management's responses to the findings and recommendations presented in this report are included in Appendix A.

LEGISLATIVE AUDITOR

DEPARTMENT OF SOCIAL SERVICES

STATE OF LOUISIANA

Financial Related Audit, Dated July 21, 2000

This report is for the use of management of the Department of Social Services and should only be used by those who fully understand the limited purpose of the procedures performed. By state law, this report is a public document, and it has been distributed to appropriate public officials.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle", is written over a horizontal line.

Daniel G. Kyle, CPA, CFE
Legislative Auditor

APD:EFS:DSP:dl

[DSS-SP]

**DEPARTMENT OF SOCIAL SERVICES
STATE OF LOUISIANA
Baton Rouge, Louisiana**

BACKGROUND AND METHODOLOGY

A limited review of the Department of Social Services, Support Enforcement Services was performed in response to complaints received from custodial parents regarding the receipt and distribution of child support payments.

Louisiana Revised Statute 46:236.11 provides that the secretary of the Department of Social Services should create a state disbursement unit for the collection and disbursement of child support payments. The statute directs the Office of Family Support, Support Enforcement Program to administer the state disbursement unit. The unit is responsible for distributing all collections within two business days after receipt from the employer or other source, if sufficient information identifying the payee is available (except in cases where a timely appeal has been filed). In addition, the statute requires that the unit use automated procedures to the extent possible to ensure efficient collection and distribution of support payment. Accordingly, the Louisiana Automated Support Enforcement System (LASES) is used to record the collection and distribution of the child support payments. The monies are accounted for in the Child Support (Title IV-D) Escrow Fund.

As directed by the federal Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, Louisiana Administrative Code Chapter 25 Subchapter D Section 2514 was updated to include new distribution requirements. Under PRWORA, effective October 2, 1998, the agency was required to distribute child support collections in the following manner. In cases in which the custodial parent previously received Aid to Families With Dependent Children (AFDC) or Family Independence Temporary Assistance Program (FITAP) benefits, and there are amounts owed to the state, collections received through any means other than Internal Revenue Service (IRS) intercepts will be distributed as follows: (1) the custodial parent shall receive an amount equal to the court-ordered monthly obligation and **any arrears owed to the custodial parent that accrued in a non-assistance period**; (2) the state will receive amounts needed to liquidate the custodial parent's liability for prior benefits; and (3) any arrears that accrued during assistance that exceed the unreimbursed grant (benefits) will be paid to the custodial parent. Before October 2, 1998, amounts collected over the monthly obligation went to reimburse the state.

The following is a simplified example of the new distribution law: A custodial parent, who no longer receives assistance, has past assistance owed to the state of \$200 and should receive a monthly obligation of \$100. The custodial parent did not receive the monthly obligation for January and February, but the Department collected \$300 for the custodial parent in March. Under the new distribution law, the entire \$300 is due to the parent. This includes the monthly obligation of \$100 and the \$200 owed to the custodial parent that accrued in a non-assistance period. Under the previous distribution law, the custodial parent would receive \$100 and the state would be reimbursed \$200.

LEGISLATIVE AUDITOR

DEPARTMENT OF SOCIAL SERVICES STATE OF LOUISIANA Background and Methodology (Continued)

The objective of our review was to determine whether the Support Enforcement Services division was collecting and distributing child support payments in accordance with state and federal laws and regulations. Our procedures consisted of the following: (1) examining selected child support cases and reports; (2) interviewing management and certain employees of the Department; (3) reviewing applicable state and federal laws and regulations; and (4) making inquiries to the extent we considered necessary to achieve our objectives.

We analyzed data relating to child support payments that included child support case files, various LASES computer screens and reports, and supporting documentation obtained from the state of Texas. Our procedures were as follows:

1. We identified nine custodial parents with cases considered "high risk of error" from the Baton Rouge, Lafayette, and Alexandria regional offices. The cases were selected from a listing of all non-custodial parents that owed amounts to the state and were based on the following criteria:
 - (a) We first looked at the LASES FISU (Financial Summary) screen for NA arrears. NA arrears are the amounts the custodial parents are due over their monthly obligation for past support payments not received.
 - (b) If there were NA arrears, we looked to see if money had been reimbursed to the state for past assistance received by the custodial parents.
 - (c) If the custodial parents had NA arrears and amounts in reimbursement to the state from October 1998 to present, they were considered "high risk" and selected for testing.

Test results revealed that LASES had not been properly updated for the new distribution law and was distributing child support monies based on the previous law. This caused child support money to be classified as owed to the state instead of distributed to the custodial parents. As a result, eight of the nine custodial parents were due monies (see finding titled "Failure to Properly Distribute Child Support Payments").

2. Based on these results, a report was requested that listed amounts reimbursed to the state through February 2000. The report had 21,519 cases totaling \$12.3 million that was reimbursed to the state. Of the \$12.3 million, approximately \$8.25 million was from IRS tax intercepts (intercepts of tax refunds due to non-custodial parents that were in arrears) acquired from October 1998 to February 2000. IRS intercepts are distributed first to the state and then to custodial parents.

LEGISLATIVE AUDITOR

DEPARTMENT OF SOCIAL SERVICES STATE OF LOUISIANA Background and Methodology (Concluded)

From this updated report, two samples were selected: one random (24 cases) and one judgmental (15 "high risk" cases). The sample included cases from the following regional offices: Baton Rouge, Monroe, Shreveport, Lake Charles, and New Orleans. Of the 39 cases, 21 custodial parents were owed for past collections that LASES identified as reimbursable to the state (see finding titled "Failure to Properly Distribute Child Support Payments"). Consequently, the Department moved the funds to the state General Fund instead of properly paying the custodial parents.

3. During the review of the sample cases, we requested supporting documentation to ensure child support payments were properly posted to the appropriate custodial parent. However, we were informed that supporting documentation for child support payments were routinely destroyed (see finding titled "Violation of Record Retention Laws").
4. We inquired about reconciliations of the Child Support (Title IV-D) Escrow Fund to ensure that the fund was reconciled to subsidiary records (client account balances) on a periodic basis. However, the Department could not provide any reconciliations of the Title IV-D Escrow Fund (see finding titled "Child Support Escrow Fund Not Reconciled").

**DEPARTMENT OF SOCIAL SERVICES
STATE OF LOUISIANA
Baton Rouge, Louisiana**

FINDINGS AND RECOMMENDATIONS

Findings and recommendations from our limited review of the Department of Social Services, Support Enforcement Services are provided below and responses from the Department of Social Services can be found in Appendix A.

**Failure to Properly Distribute
Child Support Payments**

The Department of Social Services, Office of Family Support, Support Enforcement Services (SES) did not properly distribute child support payments to custodial parents according to Louisiana Administrative Code Chapter D Section 2514 and as directed by the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996. In addition, Louisiana Revised Statute (R.S.) 46:236.11(B)(4) directs the child support payment disbursement unit to distribute all collections within two business days after receipt from the employer or other source, if sufficient information identifying the payee is available, except in cases where a timely appeal has been filed.

Custodial parents sometimes receive assistance from state and federal programs because child support payments are in arrears. The assistance is meant to be temporary and to aid the parent until child support payments are brought up-to-date. In accordance with federal regulations, a liability is established for each custodial parent for the amount of assistance that is received while the parent waits for the support payments to be brought up-to-date. Effective October 2, 1998, the PRWORA changed the method used to liquidate a custodial parent's liability. Before October 1998, any amount collected over the court-ordered monthly obligation was applied to the liability, regardless of whether or not those child support payments were in arrears. After October 1998, the custodial parent should receive the court-ordered monthly obligation plus any arrears that accrued in a non-assistance period; amounts received in excess of the current obligation plus arrears should be applied to a parent's liability.

The computer program that accounts for child support program activity (LASES) was not changed to implement PRWORA. Consequently, the state continued to apply child support payments to a custodial parent's liability when a payment that was more than the monthly child support obligation was received--regardless of whether the excess paid was for payments in arrears. The amounts captured to satisfy the liabilities of custodial parents were transferred to the state General Fund to be used for administrative expenditures of the program, rather than being paid to the custodial parents in accordance with the PRWORA.

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DEPARTMENT OF SOCIAL SERVICES

STATE OF LOUISIANA

Findings and Recommendations (Continued)

A LASES report was run in January 1999 that listed former assistance cases (cases not receiving assistance at that time) that had amounts reimbursed to the state from October 1998 to January 1999. Management of the Department of Social Services assigned two full-time employees to review each case on the LASES report to determine the amounts (if any) due to custodial parents because of PRWORA. When errors were found in distributions to custodial parents, the department used current collections for other custodial parents to correct the payments. Custodial parents that complained about child support payments were given priority.

As of March 1, 2000, the Department had not finished reviewing the cases on the January 1999 list. Also, the Department was not able to provide a record of cases reviewed or total money paid to custodial parents as a result of the manual review process. Employees are currently working on the 21,519 cases identified through February 2000.

Auditors reviewed nine "high risk" child support cases involving three regional offices. "High risk" child support cases are those in which the custodial parents previously received assistance, had amounts reimbursed to the state, and was due amounts over their monthly obligation for past support payments not received. Of these nine cases, eight custodial parents (89%) were due \$7,584.57, with payments ranging from \$525.00 to \$2,679.79. The ninth custodial parent was not owed money because she consistently called the regional office questioning the status of her case.

Two additional samples were selected from the February 2000 LASES report: one random (24 cases) and one judgmental (15 "high risk" cases). In seven of the 24 random cases (29%), custodial parents were owed \$1,472.36. In 14 of the 15 "high risk" cases (93%), custodial parents were owed \$25,795.22.

In summary, 29 of 48 cases (60%) tested had from \$16 to \$6,143 paid to the state General Fund that was actually owed to the custodial parents. The monies were not distributed to custodial parents until 4 to 14 months after collection, which exceeds the two business days allowed by R.S. 46:236.11(B)(4). A total of \$34,852.15 was paid out for the 29 cases.

Failure to implement the new distribution law was further evidenced by a federal report issued in December 1999. The Department of Health and Human Services issued an *Independent Verification and Validation Assessment Review* of LASES. Among the report's findings, the report noted that despite the passage of PRWORA, the LASES project essentially has remained in maintenance mode relative to application development. In addition, the report states, "... the current LASES project does not appear to have a standard, well-defined management organization nor employ a structured project management methodology to measure or assure project milestones are identified and deadlines achieved."

LEGISLATIVE AUDITOR

DEPARTMENT OF SOCIAL SERVICES

STATE OF LOUISIANA

Findings and Recommendations (Continued)

The Department's failure to provide custodial parents with child support payments in a timely manner may have put undue hardship on the custodial parents and their children. The use of a manual method (two employees) versus automated procedures (LASES) reduces the efficiency and effectiveness of distributing child support payments. Furthermore, state General Fund revenues may be overstated because amounts that are actually due to custodial parents have been transferred to the General Fund to fund administrative program expenditures.

The Department of Social Services should make the necessary programming adjustments to LASES to comply with the new distribution requirements of the PRWORA of 1996. The Department should immediately examine all appropriate child support cases to ensure that custodial parents have received their proper distribution. Furthermore, the Department should not transfer child support funds that may be due to custodial parents to the state General Fund.

Violation of Record Retention Laws

The Department of Social Services, Office of Family Support, Support Enforcement Services (SES) violated record retention laws when it destroyed supporting documentation for child support payments received during July 1, 1999, through January 31, 2000. R.S. 44:36(A) states that agencies are required to retain records for a minimum of three years from the date on which the public record was made. R.S. 24:514(C) states that "no officer shall destroy any voucher or other paper belonging to his office before it has been examined by the legislative auditor or certified public accountant authorized to perform an audit in lieu of the legislative auditor."

Interviews with six of the 12 regional managers revealed that supporting documentation for child support payments were routinely destroyed. Four offices kept the support for one to three months after posting while the other two offices shredded the documentation immediately after it was processed. Without supporting documentation, management cannot ensure that child support payments have been posted to the appropriate accounts nor can problems be researched timely when clients identify potential errors in their accounts. When clients question whether or not child support payments have been correctly posted to their accounts and/or correctly distributed to the custodial parent, the burden of proof is on the clients to prove payment when SES has already destroyed the supporting documentation that came with the payment.

For example, auditors reviewed a case in which an out-of-state non-custodial parent made regular payments for two custodial parents located in Louisiana. One of the custodial parents repeatedly called the regional office to report errors in the distribution of the payments. Auditors determined that over a 12-month period, five of the 47 payments to the two custodial parents were posted incorrectly. Four payments totaling approximately \$600 were posted to the wrong custodial parent and one payment was incorrectly split between the two custodial

DEPARTMENT OF SOCIAL SERVICES

STATE OF LOUISIANA

Findings and Recommendations (Continued)

parents. Both the client and the SES employees became frustrated while trying to resolve the errors because the regional office did not have the documentation that accompanied the child support payments.

Failure to maintain supporting documentation increases the risk that fraud and errors could occur and not be detected in a timely manner. Not only does the Department violate state record retention statutes when supporting documentation is destroyed, destruction of the records prevents the department from providing prompt service to clients when errors occur and places the burden of proof on the client to prove that an error has been made.

Management should develop and implement procedures for maintaining supporting documentation for child support payments to ensure compliance with retention laws and to ensure that questions and concerns of non-custodial and custodial parents about their accounts may be addressed promptly.

Child Support Escrow Fund Not Reconciled

The Department of Social Services is not reconciling the Child Support (Title IV-D) Escrow Fund to the client accounts on a periodic basis. Good internal control includes periodic reconciliations of cash accounts (such as the Title IV-D Escrow Fund) to subsidiary records (such as the client accounts). A proper reconciliation provides management with a basis to ensure that errors and/or fraud are detected in a timely manner and that accounting data are both accurate and reliable.

The Title IV-D Escrow Fund is the clearing account that is used to process child support receipts and payments. Child support receipts from non-custodial parents are deposited into the fund and credited to the accounts of custodial parents. Distributions are then made to the custodial parents and/or to the state General Fund, depending on the status of each parent's account. During fiscal year ended June 30, 1999, total additions and deletions of the escrow fund were \$212 million or approximately \$17.7 million monthly. The balance in the account at June 30, 1999, is approximately \$3.2 million.

Failure to reconcile the Title IV-D Escrow Fund cash to subsidiary client accounts could lead to the misuse of funds and increases the risk that fraud and/or computer programming or operating errors could occur and not be detected in a timely manner. A reconciliation would detect errors such as undistributed amounts payable to custodial parents, undistributed amounts payable to the state General Fund, and the failure to post a receipt to a client account.

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DEPARTMENT OF SOCIAL SERVICES

STATE OF LOUISIANA

Findings and Recommendations (Concluded)

Management should require monthly reconciliations of the Title IV-D Escrow Fund to the client accounts to ensure that the accounting records are both accurate and reliable and that child support receipts and related distributions to both the state and custodial parents have been appropriately recorded.

Appendix A

Management's Responses to the Findings and Recommendations and the Corrective Action Plans



M. J. "MIKE" FOSTER, JR.
GOVERNOR

State of Louisiana
Department of Social Services
OFFICE OF MANAGEMENT AND FINANCE
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J. RENE AUSTIN-DUFFIN
SECRETARY

June 28, 2000

Dr. Daniel G. Kyle, CPA, CFE
Legislative Auditor
Office of Legislative Auditor
1600 North Third Street
Baton Rouge, Louisiana 70804-9397

Dear Dr. Kyle:

FAILURE TO PROPERLY DISTRIBUTE CHILD SUPPORT PAYMENTS

The Department concurs with this finding. The LASES distribution system should have been changed in October 1998 to provide that arrears owed to families in former TANF cases be paid before arrears owed to the State and Federal Governments. However, due to a lack of in-house programming resources, the changes were not able to be made. Although SES State Office has been working on making manual adjustments to cases since January 1999, we have not been able to keep up with the numerous payments that need to be adjusted. In order to speed up the process, we have assigned one person from each of the twelve Regional Offices to assist in this project. We are hopeful that all adjustments will be completed within the next three months. In addition, we are almost certain that the programming changes to pay family arrears first will be in place by July 1, 2000. This will provide for payments in former TANF cases to be distributed correctly and will preclude the need for journal entries on future cases.

In regards to the comment that "the current LASES project does not appear to have a standard, well-defined management organization nor employ a structured project management methodology to measure or assure project milestones are identified and deadlines achieved", we are pleased to report that the Department has addressed this issue. We have made the decision to contract with four vendors to provide the following services: 1. Independent Verification and Validation, 2. Quality Assurance, 3. Federal Case Registry, and 4. All other PRWORA system requirements. State programmers will concentrate on distribution and IRS changes. In addition, we have assigned eight program staff and four programmers exclusively to the project. We are hopeful to have all PRWORA requirements in place by October 1, 2001.

Dr. Daniel G. Kyle, CPA, CFE

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June 28, 2000

VIOLATION OF RECORD RETENTION LAWS

This finding comes as a complete surprise to us. We have been audited by the Legislative Auditor, and by DSS and Federal auditors extensively over the past fifteen years, and no one has ever advised us that we were in violation of the State record retention law. If we had been advised of this in the past, we would have made immediate arrangements to retain copies of the actual payment and any supporting documentation. It was not the intent of the Department to violate the record retention laws of the State.

We are pleased to report that we are now making images of payments and supporting documentation. Since April 1, 2000, all payments go to our Centralized Collection Unit which is managed under contract by Lockheed Martin. Under the terms of the contract, Lockheed Martin is required to make and maintain an image of all payment instruments and supporting documentation. The images become the property of the State and will be maintained permanently on CD Rom. We are confident that this will resolve this issue for the future.

The contact person for the above mention findings is Gordon Hood at (225) 342-4789.

CHILD SUPPORT ESCROW FUND NOT RECONCILED

We concur with the finding and recommendation regarding the Child Support Escrow Fund not being reconciled. Our corrective action plan is to identify the ISIS balance (revenue minus expenditures equal balance). This balance should be the timing difference between classification of revenue in ISIS and the 24-hour distribution of collections in the Louisiana Automated Support Enforcement System (LASES).

We will start with the balance carried over to fiscal year 2001. Once the balance is identified by pay-in-voucher, any remaining differences should be due to unidentified or suspended items in LASES. LASES could then provide reports that would identify these items by client account. The frequency of the reconciliation will largely depend on the availability of these reports. Any "old" balances (prior unreconciled years) should remain constant through a bi-weekly or monthly reconciliation. The reconciliation will begin with the start of fiscal year 2001.

Dr. Daniel G. Kyle

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June 28, 2000

We have assigned the responsibility of this reconciliation to Mary Robillard, she can be reached at (225) 342 2958.

Sincerely,

A handwritten signature in cursive script that reads "Thomas Joseph".

Thomas Joseph, CPA, Director
Division of Fiscal Services

TJ/dt